

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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**REVIEW OF  
THE STATE AND FEDERAL GRANTS  
AND CONTRACTS AWARDED TO THE  
UNIVERSITY OF SOUTHERN CALIFORNIA  
FOR THE FAMILY PRACTICE  
RESIDENCY TRAINING PROGRAM**

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F-622

REVIEW OF THE STATE AND FEDERAL GRANTS  
AND CONTRACTS AWARDED TO THE UNIVERSITY  
OF SOUTHERN CALIFORNIA FOR THE FAMILY  
PRACTICE RESIDENCY TRAINING PROGRAM

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August 14, 1986

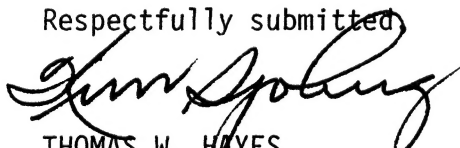
F-622

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the University of Southern California's administration of the state and federal grants and contracts awarded for the Family Practice Residency Training Program. The report indicates that the University of Southern California, with minor exceptions, is complying with terms and conditions of these grants and contracts and is exercising good financial control over these funds.

Respectfully submitted

  
THOMAS W. HAYES  
Auditor General

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## SUMMARY

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### RESULTS IN BRIEF

In fiscal years 1984-85 and 1985-86, the State of California has provided \$80,000 and \$52,000, respectively, of the \$1.5 million annual budget for the University of Southern California's (university) Family Practice Residency Training Program (family practice program). With minor exceptions, the university, a private organization, is complying with terms and conditions of these grants and contracts and is exercising good financial control over these funds.

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### BACKGROUND

The university's School of Medicine operates the family practice program through an affiliation agreement with the Presbyterian Intercommunity Hospital, Inc. (hospital), a nonprofit corporation located in Whittier, California. In accordance with provisions of law, both the state and federal governments provide funds for programs in family practice medicine. The annual budget for the family practice program is approximately \$1.5 million. The hospital provides approximately 70 percent of the financial resources to support the annual budget, the university provides approximately 8 percent, the American Cancer Society provides approximately 3 percent, two contracts with the State of California provide approximately 4 percent, and a federal grant and a federally funded contract provide approximately 15 percent. The scope of this audit was limited to a review of the two state contracts and the federal grant and contract.

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## PRINCIPAL FINDINGS

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### The University Appropriately Administers the State and Federal Grants and Contracts for the Family Practice Program

The university has adequate internal control over state and federal grants and contracts for the family practice program, and the university correctly charges these state and federal grants and contracts. In addition, the university complies with the requirements of the state and federal grants and contracts for the family practice program.

Although the federal Graduate Training in Family Medicine grant was overcharged by \$1,247, the university found this overpayment in February 1986 and obtained reimbursements from the overpaid employee. On July 7, 1986, the university corrected the charges to the grant. Furthermore, although the university overbilled the Physician's Assistant contract by \$2,387 in fiscal year 1984-85, the university reimbursed the State in May 1986.

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## AGENCY COMMENTS

The university agrees with our report. The university states that the clerical errors we reviewed confirm the adequacy of university controls related to the family practice program because the errors were detected and corrected by the university prior to our audit.

## INTRODUCTION

The University of Southern California School of Medicine, through an affiliation agreement with the Presbyterian Intercommunity Hospital, Inc. (hospital), operates the Family Practice Residency Training Program (family practice program). The University of Southern California (university), located in Los Angeles, is a major private institution of higher learning. The hospital operates as a California nonprofit corporation and maintains an acute care general hospital in Whittier, California. The university is the organization that applies to the state and federal governments to obtain funding for the program.

According to the agreement between the university and the hospital, the university's responsibilities are to ensure compliance with accreditation standards established by the Accreditation Council for Graduate Medical Education, to maintain a high quality curriculum, to select faculty, and to supplement the hospital's teaching staff. The university also accounts for the funds it provides to the family practice program, and it accounts for funds that state and federal grants and contracts provide for the program. The director of the program, who is a university employee, reports directly to the chairman of the university's Department of Family Medicine, to the hospital's Vice President for Corporate Planning, and to the hospital's Family Practice Residency Committee. The hospital is responsible for providing the major financial support, the teaching space, the teaching staff, and the patients for the family practice program. The

university and the hospital jointly select doctors to be trained as family practice physicians (residents). The hospital is required to use fees paid by patients admitted to the hospital for medical care under the family practice program to support the program. The hospital directly spends and accounts for the funds that it and the American Cancer Society provide to the family practice program.

In 1976, Section 69270 was added to the California Education Code. This section states that there is a shortage of family physicians in California, and it provides for state contracts between the State and accredited medical schools to recruit and train doctors and students to meet the need for family physicians and physicians' assistants. The Office of Statewide Health Planning and Development administers these contracts for the State.

In addition, United States Code, Title 42, Section 295g-6, authorizes the federal government to award grants to nonprofit private hospitals and schools of medicine to assist in meeting the cost of planning, developing, and operating approved graduate training programs in the field of family medicine.

According to a state contract proposal prepared by the university, the family practice program is supported by the hospital, the university, the American Cancer Society, state contracts, and federal grants and contracts. The annual budget for the program is approximately \$1.5 million. The hospital provides approximately



70 percent of the amount, the university provides approximately 8 percent, the American Cancer Society provides approximately 3 percent, contracts with the State of California provide up to 4 percent, and a federal grant and a federally funded contract provide approximately 15 percent.

The state and federal funds that support the family practice program are provided by the following grants and contracts:

The State Family Practice Residency Training Program

Contract--This contract stipulates that the State is to pay the university \$51,615 for the year ended June 30, 1985, and \$51,615 for the year ended June 30, 1986, to increase the number of residents in training from 12 to 15. That is, the university will receive \$17,205 per year from the State for each of the 3 additional residents. These funds from the State must be used to support the family practice program.

The State Physician's Assistant Contract--This

contract states that the State is to pay the university \$28,080 for the year ended June 30, 1985, to hire a physician's assistant to aid in teaching physician's assistant trainees and family practice residents.

The Federal Graduate Training In Family Medicine Grant--This grant, awarded to the university by the federal Department of Health and Human Services, was budgeted for \$161,542 for the year ended June 30, 1985, and \$141,926 for the year ended June 30, 1986. This grant is to provide training for family practice residents in promoting good health habits for their patients.

The Graduate Medical Education Program Contract--This contract stipulates that the San Gabriel Valley Area Health Education Center is to pay the family practice program \$72,979 for the year ended September 30, 1985, and \$46,608 for the year ended September 30, 1986, to provide training in geriatric medicine for family practice residents. The San Gabriel Valley Area Health Education Center is a contractor to the University of California, San Francisco, which was awarded a federal grant by the federal Department of Health and Human Services.

For more information on these grants and contracts, see the Appendix.

## SCOPE AND METHODOLOGY

The scope of this audit was limited to a review of two state contracts, one federal grant, and one federally funded contract, which support the family practice program. We reviewed the state Family Practice Residency Training Program contract and the state Physician's Assistant contract for the 21-month period ended March 31, 1986. We also reviewed the federal Graduate Training in Family Medicine grant for the 21-month period ended March 31, 1986, and the federally funded Graduate Medical Education Program contract for the 18 months ended March 31, 1986. We did not audit the funds provided by the hospital, the American Cancer Society, or the university because they are private funds.

To gain an understanding of the university's role and responsibilities for administering grants and contracts and to identify the appropriate charges to the grants and contracts and the specific compliance provisions, we reviewed applicable laws, contracts, grant documents, and regulations. To determine the university's system of controls, we interviewed the program director and other university staff, and we reviewed documents describing the university's accounting system. To determine the propriety of the grant and contract charges, we compared the charges to budgets approved by the agencies that awarded the grants and contracts. We also compared the charges to specific grant and contract requirements and to supporting documentation, such as records of approvals, invoices, and copies of

paid checks. We made our examination in accordance with generally accepted governmental auditing standards for financial and compliance audits.

## AUDIT RESULTS

### THE UNIVERSITY OF SOUTHERN CALIFORNIA PROPERLY ADMINISTERS STATE AND FEDERAL GRANTS AND CONTRACTS AWARDED TO THE FAMILY PRACTICE RESIDENCY TRAINING PROGRAM

The University of Southern California (university), with minor exceptions, is complying with terms and conditions of the state and federal grants and contracts and has exercised good financial control over the funds from these grants and contracts. We reviewed the following state contracts, federal grant, and federal contract that provide funds to the Family Practice Residency Training Program (family practice program): the state Family Practice Residency Training Program contract, the state Physician's Assistant contract, the federal Graduate Training in Family Medicine grant, and the federally funded Graduate Medical Education Program contract with the San Gabriel Valley Area Health Education Center. In fiscal years 1984-85 and 1985-86, through the two state contracts, the State of California has provided \$80,000 and \$52,000, respectively, of the \$1.5 million annual budget for operating the family practice program.

The university exercises a degree of control over all grants and contracts. The university's Department of Contracts and Grants, reporting to the university's Senior Vice President for Administration, coordinates the review and submission of all proposals, negotiates terms and budgets for all grants and contracts, and administers all grants and contracts received by the university. The program director,

a university employee who reports to the chairman of the university's Department of Family Practice Medicine, administers and approves all expenses charged to the family practice program. The university's Sponsored Projects Accounting Division, reporting to the university's Vice President of Finance, interprets grant awards, audits expenditures, prepares financial reports, determines allowable direct and indirect costs, and provides accounting assistance to program directors.

The University of Southern California  
Appropriately Manages the State and  
Federal Grants and Contracts for the  
Family Practice Residency Training Program

The university has appropriate systems for internal control over state and federal grants and contracts for the family practice program. In addition, the university correctly makes charges to these state and federal grants and contracts. The federal Graduate Training in Family Medicine grant was overcharged by \$1,247, but the university found this overpayment in February 1986 and has obtained reimbursement from the overpaid employee. On July 7, 1986, the university corrected this \$1,247 charge to the grant.

As shown in Table 1, for the period audited, 85 percent of the charges to the state and federal grants and contracts were for salaries, wages, and related fringe benefits. Eight percent of the charges to the grants and contracts, or \$28,646, were for supplies,

equipment, consultant costs, and travel. The remaining 7 percent of the charges were indirect expenses for the university's central administrative activities.

**TABLE 1**

**UNIVERSITY OF SOUTHERN CALIFORNIA  
FAMILY PRACTICE RESIDENCY TRAINING PROGRAM  
SUMMARY OF CHARGES MADE TO  
STATE AND FEDERAL GRANTS AND CONTRACTS  
JULY 1, 1984 THROUGH MARCH 31, 1986**

	Amounts Charged to the Family Practice Residency Training Program Contract	Amounts Charged to the Physician's Assistant Contract**	Amounts Charged to the Graduate Training in Family Medicine Grant	Amounts Charged to the Graduate Medical Education Program Contract	Total	Percent
<b>1984-85 Fiscal Year*</b>						
Salaries and wages	\$20,985	\$20,472	\$ 70,735	\$46,492	\$158,684	67
Fringe benefits	<u>5,666</u>	<u>5,528</u>	<u>17,188</u>	<u>11,279</u>	<u>39,661</u>	<u>17</u>
Salaries, wages, and fringe benefits	26,651	26,000	87,923	57,771	198,345	84
Supplies, equipment, travel, and consultants	4,991		17,551		22,542	9
Indirect costs	<u>2,531</u>	<u>2,080</u>	<u>8,026</u>	<u>4,623</u>	<u>17,260</u>	<u>7</u>
Total Expenditures	<u>\$34,173</u>	<u>\$28,080</u>	<u>\$113,500</u>	<u>\$62,394</u>	<u>\$238,147</u>	<u>100%</u>
<b>1985-86 Fiscal Year Through March 31, 1986*</b>						
Salaries and wages	\$22,456	\$	\$ 42,384	\$17,710	\$ 82,550	70
Fringe benefits	<u>6,175</u>		<u>10,172</u>	<u>4,484</u>	<u>20,831</u>	<u>18</u>
Salaries, wages, and fringe benefits	28,631		52,556	22,194	103,381	88
Supplies, equipment, travel, and consultants			6,104		6,104	5
Indirect costs	<u>2,290</u>		<u>4,693</u>	<u>1,776</u>	<u>8,759</u>	<u>7</u>
Total Expenditures	<u>\$30,921</u>	<u>\$ 0</u>	<u>\$ 63,353</u>	<u>\$23,970</u>	<u>\$118,244</u>	<u>100%</u>
<b>Total Charges for 1984-85 Fiscal Year and 1985-86 Fiscal Year Through March 31, 1986*</b>						
Salaries and wages	\$43,441	\$20,472	\$113,119	\$64,202	\$241,234	68
Fringe benefits	<u>11,841</u>	<u>5,528</u>	<u>27,360</u>	<u>15,763</u>	<u>60,492</u>	<u>17</u>
Salaries, wages, and fringe benefits	55,282	26,000	140,479	79,965	301,726	85
Supplies, equipment, travel, and consultants	4,991		23,655		28,646	8
Indirect costs	<u>4,821</u>	<u>2,080</u>	<u>12,719</u>	<u>6,399</u>	<u>26,019</u>	<u>7</u>
Total Expenditures	<u>\$65,094</u>	<u>\$28,080</u>	<u>\$176,853</u>	<u>\$86,364</u>	<u>\$356,391</u>	<u>100%</u>

\*The fiscal year for the Family Practice Residency Training contract, the Physician's Assistant contract, and the Graduate Training in Family Medicine grant, is from July 1 to June 30. The fiscal year for the Graduate Medical Education Program contract is from October 1 to September 30.

\*\*The University of Southern California did not enter into a Physician's Assistant contract with the State for the 1985-86 fiscal year.



### Funds Received Through State and Federal Grants and Contracts

The university has properly accounted for the funds it receives through state and federal grants and contracts. The university obtains these funds in different ways. The university obtains funds for costs charged to the Physician's Assistant contract, the federal Graduate Training in Family Medicine grant, and the Graduate Medicine Education Program contract by billing the agencies that awarded these grants and contracts. The university obtains funds for the state Family Practice Residency Training Program contract by billing the State for one-twelfth of the annual contract amount at the end of each month.

We were able to determine that the university accurately recorded the funds it received through the state and federal contracts we reviewed. However, we were unable to separately identify or confirm the amount of federal funds received for the federal Graduate Training in Family Medicine grant because federal regulations of the National Institute of Health require that, when the university requests funds from the National Institute of Health, the university consolidates its requests for funds for all federal grants and contracts administered by the university.

## Salaries and Wages

From July 1, 1984, through March 31, 1986, salaries and wages of \$241,234 were appropriately charged to the state and federal grants and contracts, except for a \$1,247 overcharge to the federal Graduate Training in Family Medicine grant. The university found this overcharge in February 1986 and obtained reimbursement from the overpaid employee. Although the correction is not incorporated in Table 1 on page 10, the university corrected the charges to the contract on July 7, 1986.

The university's system of internal accounting and administrative controls for payroll is designed so that there are several levels of approval required in hiring and assigning employees. The following university officials must approve the hiring of each new employee: the program director, the director of personnel, the manager of the university Health Science Campus, the dean of the School of Medicine, and the Vice President for Health Affairs. These university officials also establish salaries and determine the sources of funds to be used to pay for salaries and fringe benefits.

Furthermore, the university's budgeting and accounting system is divided into departments and programs. Each program director is responsible for monitoring the costs charged to his program. The university's accounting staff prepares monthly reports showing costs charged to each program. In addition, the university payroll and

personnel system produces an earnings history report that shows each employee's salary and the source of funds used to pay the employee.

To test the salaries and wages charged to the state and federal grants and contracts, we listed by month the charges to these contracts and grants for the period audited. We then selectively chose a sample of months to test for each grant or contract, including charges that differed from other months or that appeared to be for odd amounts. We compared the charges in our sample to approved pay authorization forms, to records of employees' earnings history, and to copies of paychecks. Finally, we analyzed the charges to determine if charges not included in our sample appeared reasonable.

We found that the procedures used by the university are satisfactory. However, the federal Graduate Training in Family Medicine grant was overcharged initially by \$1,247. Because of a delay in processing a change in employment status, an employee of the program, whose salary was partially paid from the federal Graduate Training In Family Medicine grant, was erroneously paid for full-time work, rather than part-time work, from December 1985 through February 1986. The university found the error and, in February 1986 requested and received a check from the employee as reimbursement for the overpayment. On July 7, 1986, the university recorded a general journal entry to amend the contract records to correct the error.

### Fringe Benefits and Indirect Costs

Except for the amounts related to the \$1,247 payroll overcharge, the university accurately computed the charges to the state and federal grants and contracts for fringe benefits of \$60,492 and indirect costs of \$26,019. As previously mentioned, on July 7, 1986, the university amended the contract records to correct the error.

Each year, the university negotiates with the federal Department of Health and Human Services for the fringe benefit and indirect cost rates that the university will charge to federal grants and contracts it receives. Once these rates are approved, the university may charge the rates to federal grants, contracts, and other agreements that the university has with the federal government. The fringe benefit rates charged to the state and federal grants and contracts are used to reimburse the university for the costs of employer contributions for social security payments, health and dental insurance, workers compensation and disability insurance, and similar costs. The university uses the charges for indirect costs to offset general administrative costs such as accounting services and the maintenance of the buildings and grounds. In negotiating fringe benefit and indirect cost rates chargeable to state contracts, the university uses the rates negotiated with the Department of Health and Human Services and makes minor adjustments for costs that are not allowed by the federal Department of Health and Human Services but are allowed by the State.

The state and federal grants and contracts specify the rates to be used to charge fringe benefits and indirect costs to each grant or contract. The university's Sponsored Projects Accounting Division analyzes each grant or contract and enters the negotiated rates into the computer system. The charges for fringe benefits are computed as a percentage of the amount charged for salaries and wages. The indirect cost rate used for state contracts is calculated as a percentage of the total direct costs, including salaries and wages, fringe benefits, and materials and supplies. For federal grants and contracts, the indirect cost rate is calculated as a percentage of total direct costs, except for certain specified items such as equipment. For both state contracts, the fringe benefit rate is approximately 27 percent, and the indirect cost rate is 8 percent. For the federal grant and contract, the fringe benefit rate is approximately 24 percent, and the indirect cost rate is 8 percent.

To test the amounts charged to the state and federal grants and contracts for fringe benefits and indirect costs, we reviewed the grants and contracts to identify the rates agreed upon. We also compared the charges to the university's records of actual costs and to rates of similar organizations. Finally, we recalculated the amounts charged to each grant or contract to determine the accuracy of the charges.

We found that the university's procedures are satisfactory, that the rates agreed upon are reasonable, and that the amounts charged

to the state and federal grants and contracts for fringe benefits and indirect costs are accurately computed, except for the amount related to the \$1,247 payroll overcharge. As previously mentioned, on July 7, 1986, the university amended the contract records to correct the error.

Supplies, Equipment,  
Travel, and Consultants

From July 1, 1984, through March 31, 1986, the university charged the costs for supplies, equipment, travel, and consultants to either the state Family Practice Residency Training Program contract or to the federal Graduate Training in Family Medicine grant. These charges, which totaled \$28,646, included \$9,887 for supplies, \$9,952 for equipment, \$7,407 for travel, and \$1,400 for consultants who participated in faculty development meetings.

Table 2 shows that, of the \$9,887 the university charged to the state Family Practice Residency Training Program contract and the federal Graduate Training in Family Medicine grant for supplies, 41 percent was for educational materials, 20 percent was for maintenance agreements and small office equipment, 17 percent was for office supplies, and 14 percent was for computer equipment and software.

**TABLE 2**

**UNIVERSITY OF SOUTHERN CALIFORNIA**  
**FAMILY PRACTICE RESIDENCY TRAINING PROGRAM**  
**CHARGES TO STATE AND FEDERAL GRANTS AND CONTRACTS FOR SUPPLIES**  
**JULY 1, 1984 THROUGH MARCH 31, 1986**

	<u>Amounts Charged to Family Practice Residency Training Program Contract</u>	<u>Amounts Charged to Graduate Training in Family Medicine Grant</u>	<u>Total Charges</u>	<u>Percent</u>
<b>Educational Materials</b>				
Cassettes		\$2,186		
Books and reference guides		1,165		
Films and slides		656		
Graphs	<u>\$ 52</u>			
Total	52	4,007	\$4,059	41%
<b>Maintenance Agreements and Small Office Equipment</b>				
Maintenance agreements	120	850		
Cabinets		580		
Calculator and recorders		267		
Tables		<u>180</u>		
Total	120	1,877	1,997	20
<b>Office Supplies</b>				
Miscellaneous supplies		1,072		
Stamps	66	168		
Diskettes		165		
Typestyle		109		
Photocopies		<u>68</u>		
Total	66	1,582	1,648	17
<b>Computer Equipment and Software</b>				
Software		676		
Terminal		501		
Modem		<u>237</u>		
Total		1,414	1,414	14
<b>Miscellaneous</b>				
		<u>769</u>	<u>769</u>	<u>8</u>
Total	<u>\$238</u>	<u>\$9,649</u>	<u>\$9,887</u>	<u>100%</u>

As shown in Table 3 below, 76 percent of the \$9,952 charges to the state and federal grants and contracts of the family practice program for equipment were for the purchase of medical equipment.

**TABLE 3**

**UNIVERSITY OF SOUTHERN CALIFORNIA  
FAMILY PRACTICE RESIDENCY TRAINING PROGRAM  
CHARGES TO STATE AND FEDERAL GRANTS  
AND CONTRACTS FOR EQUIPMENT  
JULY 1, 1984 THROUGH MARCH 31, 1986**

	Amounts Charged to Family Practice Residency Training Program Contract	Amounts Charged to Graduate Training in Family Medicine Grant	Total	Percent
Medical Equipment				
Tympanometer		\$2,768	\$2,768	
Colposcope	\$2,695		2,695	
Cryosurgical freezer	1,345		1,345	
Other surgical equipment	765		765	
Total	4,805	2,768	7,573	76%
Electronic typewriter		1,038	1,038	10
Desk		500	500	5
Chair		473	473	5
File cabinet		368	368	4
Total	<u>\$4,805</u>	<u>\$5,147</u>	<u>\$9,952</u>	<u>100%</u>

The university's internal controls require that the program director approve in advance requisitions for materials and supplies that are charged to state and federal grants and contracts. The university's purchasing department analyzes these requisitions to make sure that the purchase may be charged to the designated grant or



contract before it issues purchase orders. The university's internal controls also ensure that vendor invoices will not be paid until matched with a purchase order and other documents showing that the goods or services have been received.

Table 4 itemizes the \$7,407 of travel expenses the university charged to state and federal grants and contracts of the family practice program from July 1, 1984, through March 31, 1986.

**TABLE 4**

**UNIVERSITY OF SOUTHERN CALIFORNIA  
FAMILY PRACTICE RESIDENCY TRAINING PROGRAM  
CHARGES TO THE GRADUATE TRAINING IN FAMILY  
MEDICINE GRANT FOR TRAVEL  
OCTOBER 1, 1984 THROUGH MARCH 31, 1986**

<u>Purpose of Travel</u>	<u>Amounts Charged</u>
American Academy of Family Physician Conferences	
Attended by the program director and six doctors	\$3,152
Health Promotion Seminar	
Attended by two doctors	1,980
Wellness Conferences	
Attended by one doctor	1,419
Physician's Assistant Conferences	
Attended by one physician's assistant	<u>856</u>
Total	<u>\$7,407</u>

The university's internal controls over travel and consultant costs charged to the state and federal grants or contracts require that the program director approve a check request in advance. In addition, the university's Health Science Campus Financial Services Division must review and approve check request forms and supporting documentation before the university will make a payment. The university also has implemented safeguards that ensure that the pre-numbered check request form is paid only once.

To determine the propriety of the charges for supplies, equipment, travel, and consultants, we reviewed all charges to the four grants and contracts. For each charge related to a purchase order, we examined the applicable requisition document, purchase order, vendor invoice, evidence of receipt, and a copy of the check sent to the vendor. For each charge related to a check request form, we examined the applicable check request form, the vendor invoice or other supporting documents, and a copy of the check sent to the vendor. We also compared the charges to the grants and contracts to determine if the charges complied with contractual obligations.

The procedures used by the university are satisfactory. Also, the amounts charged to the grants and contracts for supplies, equipment, travel, and consultant costs were properly approved and recorded, and these amounts agree with grant and contract provisions.

The University of Southern California  
Complies With Requirements of  
State and Federal Grants

The university, with minor exceptions that are related to billings, complies with the specific requirements of the state and federal grants and contracts for the family practice program. The university complies with budgetary limits and with the specific expenditure restrictions of the grants and contracts.

Each grant or contract imposes budgetary limits. The Physician's Assistant contract, the federal Graduate Training in Family Medicine Program grant, and the Graduate Medical Education Program contract limit expenditures by budget categories such as salaries and wages, fringe benefits and indirect costs, and materials and supplies.

In addition to budgetary limits, the grants and contracts impose other restrictions related to expenditures. For example, the state Family Practice Residency Training Program contract requires prior approval of expenditures for new construction, and the federal Graduate Training in Family Medicine grant expressly prohibits spending the grant's funds for contributions to private or public individuals or organizations. The Graduate Medical Education Program contract requires that all out-of-state travel expenses be approved in advance.

To determine whether the university complied with the budgetary limits and other expenditure restrictions, we compared the

budgetary limits with expenditures for each of the grants and contracts. We examined evidence of prior approval from the agencies that awarded the state and federal grants and contracts if there was a modification of the original budget or if there were specific types of expenditures requiring prior approval. We found that the university has complied with the budgetary limits and other restrictions on expenditures.

#### Number of Residents

According to the state Family Practice Residency Training Program contract, the university must enroll at least 15 family practice residents to receive the \$51,615 per year for increasing the number of residents in the program from 12 to 15.

To determine if the university kept a sufficient number of residents enrolled in the family practice program, we reviewed monthly billing documents prepared by the program director, counted the residents the director reported in the program, and compared the names of these residents to documents from independent sources showing the residents enrolled in the program.

We found that the university complies with the requirement that at least 15 residents participate in the program. Therefore, the university is entitled to receive funds from the State under the terms of the state Family Practice Residency Training Program contract.

### Reporting and Billing

The university generally prepares and submits reports and billings in compliance with the requirements of the state and federal grants and contracts. Although the university overbilled the state Physician's Assistant contract by \$2,387 in fiscal year 1984-85, it reimbursed the State in May 1986. In addition, as of June 10, 1986, the university had not yet billed the State for any of the months of fiscal year 1985-86 and was three days late in submitting the fiscal year 1984-85 semiannual report for the Graduate Medical Education Program contract.

Each grant or contract establishes specific reporting or billing requirements. We reviewed the grant reports and billing documents and compared them to the grant or contract requirements. To determine if the reports and the billings correctly reflect the amounts spent, we compared the reports and the billings to recorded expenditures for each grant. We also reviewed copies of the billings and reports to determine if they were submitted within the times specified in the Graduate Medical Education Program contract.

For fiscal year ended June 30, 1985, the university overbilled the State for the Physician's Assistant contract by \$2,387. The university billed the State each month for one-twelfth of the annual contract amount instead of for the actual monthly expenses. The university's employees detected this error, and the university remitted

a check to the State on May 29, 1986, for the amount of the overbilling. According to both the university's senior contract and grant administrator and the manager of the Sponsored Projects Accounting Division, the error occurred because an accountant in the Sponsored Projects Accounting Division who was responsible for preparing the billing documents misread the contract billing requirements. The accountant thought the contract allowed billing of a fixed amount each month rather than billing for the actual expenses charged to the contract.

For fiscal year 1984-85, the university received \$51,615 from the State for the state Family Practice Residency Training Program contract. Through this contract, which stipulates that the State will pay the university to increase the number of residents in the family practice program from 12 to 15, the university may bill the State one-twelfth of the annual contract amount, or approximately \$4,301, at the end of each month. For the 1984-85 fiscal year, the university charged \$34,173 in costs to the contract.

From July 1, 1985, through March 31, 1986, the university was entitled to receive nine payments of approximately \$4,301 per month, or \$38,711, from the State for increasing the number of residents in the family practice program. During this nine-month period, the university did not bill or receive reimbursement from the State. However, the university charged \$30,921 to the contract during this period.

The university maintains a cumulative balance of costs charged to the state Family Practice Residency Training Program contract. These costs are offset by reimbursements received from the State. Since the effective date of the contract on July 1, 1980, the university has charged \$9,768 more to the contract than the university has received in reimbursements from the State. We did not audit the records before July 1, 1984.

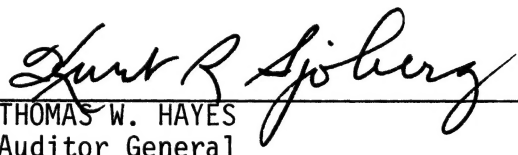
The state Family Practice Residency Training Program contract does not require that the university spend its funds within a specific period of time. Therefore, the university's Sponsored Projects Accounting Division has properly accounted for revenues and related charges for the state Family Practice Residency Training Program contract by maintaining a cumulative balance of the funds the university has received and spent since the inception of the contract.

#### CONCLUSION

The University of Southern California has appropriate systems of internal controls. In addition, the university correctly charges the state and federal grants and contracts awarded to the state Family Practice Residency Training Program, and the university complies with the specific requirements of the state and federal grants and contracts.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
for THOMAS W. HAYES  
Auditor General

Date: August 11, 1986

Staff: Richard I. LaRock, CPA, Audit Manager  
Mark C. Lamb, CPA  
John Scott Allison



**STATE AND FEDERAL GRANTS AND CONTRACTS SUPPORTING  
THE FAMILY PRACTICE RESIDENCY TRAINING PROGRAM**

Project Title	Contract/Grant Number	Awarded By	Fiscal Year 1984-85			Fiscal Year 1985-86		
			Period	Award Amount*	University Account Number	Period	Award Amount*	University Account Number
Family Practice Residency Training Program	80-75001, A4, A5 Contract	State of California, Office of Statewide Health Planning and Development	7/01/84 to 6/30/85	\$51,615	52-2146- 8991	7/01/85 to 6/30/86	\$51,615	52-2146- 8991
Training of Primary Health Care Teams: Physician's Assistant	83-20052, A1 Contract	State of California, Office of Statewide Health Planning and Development	7/01/84 to 6/30/85	\$ 28,080	52-2115- 7284	**		
Graduate Training in Family Medicine	1D15PE19137-01 Grant	United States Depart- ment of Health and Human Services	7/01/84 to 6/30/85	\$161,542	52-2115- 6623	7/01/85 to 6/30/86	\$141,926	52-5115- 6727
Graduate Medical Education Program (Area Health Education Center - AHEC)	SGV/84-85/7 Subcontract	San Gabriel Valley Area Health Education Center***	10/01/84 to 9/30/85	\$ 72,979	52-2115- 8700	10/01/85 to 9/30/86	\$ 46,608	52-5115- 0867

\*Includes direct, fringe benefits, and indirect costs.

\*\*There was no contract under this project for the 1985-86 fiscal year.

\*\*\*The U.S. Department of Health and Human Services provided a grant to the University of California, San Francisco, which in turn contracted with the San Gabriel Valley Area Health Education Center. The University of Southern California is a subcontractor of the San Gabriel Valley Area Health Education Center.

UNIVERSITY OF SOUTHERN CALIFORNIA  
UNIVERSITY PARK  
LOS ANGELES, CALIFORNIA 90089-0585

VICE PRESIDENT FINANCE  
AND TREASURER  
(213) 743-5596

August 6, 1986

Mr. Thomas W. Hayes, Auditor General  
State of California  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, California 95814

Dear Mr. Hayes:

Thank you for your draft audit report entitled "Review of the State and Federal Grants and Contracts Awarded to the University of Southern California for the Family Practice Residency Training Program".

The University agrees with the State Auditor General's report of the USC Family Practice Program.

As indicated in the audit report, the Family Practice Program is well administered and the University has adequate internal controls over the administration of federal grants and contracts. In addition, the clerical errors reviewed by the auditors confirmed these controls, as they were detected and corrected by the University prior to the audit. The advent of our on-line financial system, along with our professional support offices, continues to ensure that government funds are administered with substantial fiscal control.

If you have any further questions, please do not hesitate to call me at (213) 743-5596

Sincerely,



Dennis F. Dougherty  
Vice President Finance and Treasurer

DFD:jc

cc: Dr. James H. Zumberge  
Dr. Joseph P. Van Der Meulen  
Mr. Richard C. Webster  
Mr. John W. Thurgood  
Mr. Robert A. Baird

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps